CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 19, 2000

H.R. 5109
Department of Veterans Affairs Health Care Personnel Act of 2000

As ordered reported by the House Committee on Veterans' Affairs
on September 13, 2000

SUMMARY

H.R. 5109 contains provisions that would affect veterans' medical care, Medicare, employee compensation, and voluntary separation incentive payments. CBO estimates that enacting the bill would increase direct spending by $12 million in 2001, $96 million over the 2001-2005 period, and $66 million over the 2001-2010 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply. In addition, the bill would authorize funding or modify provisions governing discretionary spending for veterans' programs, which would result in additional outlays of $51 million in 2001 and $489 million over the 2001-2005 period, assuming appropriation of the necessary amounts.

H.R. 5109 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in Table 1. The costs of this legislation fall within budget functions 700 (veterans benefits and services), 600 (income security), and 570 (Medicare).

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 5109 will be enacted near the start of fiscal year 2001 and that the amounts necessary to implement the bill will be appropriated for each year.

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 5109, AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON VETERANS' AFFAIRS

	By Fiscal Year, in Millions of Dollars				
	2001	2002	2003	2004	2005
CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	12	26	33	19	6
Estimated Outlays	12	26	33	19	6
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Estimated Authorization Level	164	90	107	63	79
Estimated Outlays	51	119	143	89	88

Direct Spending

The bill would affect direct spending in three areas including Medicare and civil service retirement (see Table 2).

Pilot Program for Hospital Benefits. Section 401 of the bill would establish a pilot program in four geographical areas, which would allow the Department of Veterans Affairs (VA) to send certain veterans to local, non-VA hospitals and to pay for a portion of that care. The pilot program would expire at the end of fiscal year 2005. CBO estimates this section would increase Medicare spending by $4 million in 2001 and by $35 million over the 2001-2005 period. This section would also affect discretionary spending; that impact is discussed under “Spending Subject to Appropriation.”

To be eligible for the pilot program, veterans must have received some care from VA within the previous 24 months and have some public or private insurance that would pay for health care expenditures apart from VA. (The legislation would require that at least 15 percent of the enrollees not have such insurance.) When an enrolled veteran receives preauthorized care at a local hospital, the veteran's own insurance would pay first and VA would pay the remainder of the veteran’s copayments and deductibles.

TABLE 2. ESTIMATED CHANGES IN DIRECT SPENDING UNDER H.R. 5109

	By Fiscal Year, Outlays in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
PILOT PROGRAM FOR HOSPITAL BENEFITS						
Spending Under Current Law	216,900	234,800	242,500	263,000	282-200	308,500
Proposed Changes	0	4	7	8	8	8
Spending Under H.R. 5109	216,900	234,804	242,507	263,008	282,208	308,508
VOLUNTARY SEPARATION INCENTIVE PAYMENTS						
Spending Under Current Law	50,308	52,439	54,732	57,187	59,787	62,472
Proposed Changes	0	8	19	25	11	-2
Spending Under H.R. 5109	50,308	52,447	54,751	57,212	59,798	62,470
COMPENSATED WORK THERAPY PROGRAM						
Spending Under Current Law	18,816	19,719	20,505	21,215	21,898	24,377
Proposed Changes	0	a	a	a	a	a
Spending Under H.R. 5109	18,816	19,719	20,505	21,215	21,898	24,377
SUMMARY OF CHANGES TO DIRECT SPENDING						
Estimated Outlays	0	12	26	33	19	6

a. Less than $500,000.

Roughly half of VA's inpatient care is currently provided to veterans who are eligible for Medicare. Under the pilot program, VA would no longer be the primary provider of inpatient care and Medicare costs would increase while VA's costs would decline. Those Medicare-eligible veterans who, absent the pilot program, would have received their inpatient care from VA would now be treated at a non-VA hospital where Medicare would be the first payer. Not all hospitalizations for Medicare-eligible veterans would raise Medicare costs because many veterans receive care both in and out of the VA health care system.

Based on information from VA, including data from a similar ongoing pilot program in Florida and overall hospitalization data, CBO estimates that about 3,600 hospitalizations each year would occur under this program. About one-third of those hospitalizations would be for Medicare-eligible veterans who would otherwise have received their care at a VA facility. CBO estimates that the average cost of a hospitalization for Medicare in 2001 would be $6,272. In addition, CBO estimates that it will take a year to make the pilot program fully operational which would reduce the costs in 2001 by half.

Voluntary Separation Incentive Payments. Section 107 of H.R. 5109 would extend and make changes to VA's authority to offer incentive payments ("buyouts") to employees who separate voluntarily. Section 107 would extend VA's buyout authority from December 31, 2000, to December 31, 2002. The number of employees who are eligible to take buyouts would be increased from 4,400 to 8,110. Finally, the legislation would reduce the share of final pay VA must deposit to the Civil Service and Retirement Disability Fund (CSRDF) for each employee who takes a buyout from 26 percent to 15 percent.

Based on data supplied by VA, CBO estimates that a total of 4,900 employees will take buyouts between January 1, 2001, and the end of calendar year 2002. Relative to current law, H.R. 5109 will initially increase spending on retirement benefits because it will induce some employees to retire early. However, spending will decrease in later years because the employees who retire early will receive smaller annuities. CBO estimates that outlays from the CSRDF will increase by $51 million through 2004, but would generate savings of $3 million to $6 million a year after that. CBO also estimates that direct spending from the Federal Employee Health Benefits program will increase by $13 million from 2001 through 2005. In total, direct spending under this section would increase by $61 million from 2001 through 2005 and by $32 million over the 2001-2010 period. This section would also affect discretionary spending; that impact is discussed under "Spending Subject to Appropriation."

Compensated Work Therapy Program. Section 402 of the bill would extend the benefits of persons disabled by treatment or rehabilitation at a VA facility or by a designated service provider to include those participating in a compensated work therapy program. Veterans who are injured or die during such programs are awarded compensation benefits just as if the additional disability or death were service-connected. Based on information provided by VA, CBO estimates that few veterans would be affected by this section and that the proposal would cost less than $500,000.

Spending Subject to Appropriation

CBO estimates that implementing the bill would cost $489 million over the 2001-2005 period, assuming that appropriations are provided in the amounts of the estimated authorization levels (see Table 3).

TABLE 3. ESTIMATED SPENDING SUBJECT TO APPROPRIATION FOR H.R. 5109

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
VETERANS' MEDICAL CARE AND GENERAL OPERATING EXPENSES						
Spending Under Current Law						
Estimated Authorization Level [a,b]	20,434	20,434	20,434	20,434	20,434	20,434
Estimated Outlays	19,717	20,253	20,382	20,356	20,337	20,318
Proposed Changes: Pay for Nurses						
Estimated Authorization Level	0	48	90	107	63	79
Estimated Outlays	0	46	88	105	61	77
Spending Under H.R. 5109						
Estimated Authorization Level	20,434	20,482	20,524	20,541	20,497	20,513
Estimated Outlays	19,717	20,299	20,470	20,461	20,393	20,395
CONSTRUCTION OF MEDICAL FACILITIES						
Spending Under Current Law						
Budget Authority [a]	65	0	0	0	0	0
Estimated Outlays	253	217	171	116	56	27
Proposed Changes						
Estimated Authorization Level	0	116				
Estimated Outlays	0	5	31	38	28	11
Spending Under H.R. 5109						
Estimated Authorization Level	65	116	0	0	0	0
Estimated Outlays	253	222	202	154	84	38
SUMMARY OF CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	0	164	90	107	63	79
Estimated Outlays	0	51	119	143	89	88

a. The figure shown for 2000 is the amount appropriated for that year.

b. The estimate assumes that funding under current law will remain at the level appropriated for 2000 without adjustment for inflation. If funding over the 2001-2005 period is adjusted for inflation, the base amounts for medical care and general operating expenses would increase by about $600 million a year and $30 million a year, respectively. In both cases the estimated changes would remain as shown under "Proposed Changes."

Medical Care and General Operating Expenses. Implementing the bill would increase discretionary spending for veterans' medical care and general operating expenses by $377 million over the 2001-2005 period.

Pay for nurses. Section 101 would guarantee that nurses employed by VA would receive at least the same annual adjustment in their salaries that most other federal employees receive. Under current law, the annual adjustment in salaries for VA nurses is determined by the local director of each independent medical facility. Section 101 would provide VA nurses with the same pay raises as most other federal employees—an adjustment based on the change in the Employment Cost Index (ECI) minus 0.5 percentage points. This section also would change the manner in which wage surveys are conducted by allowing the use of third-party studies and would impose other requirements on the local directors concerning the use of the surveys. Adjustments based on those surveys would be conducted on a facility-by-facility basis and would not necessarily apply to all VA nurses simultaneously.

VA currently employs about 36,000 nurses and nurse anesthetists at an average annual salary of about $54,000, with salary-related benefits averaging almost $10,000. Over the last five years, the average annual adjustment in salaries for VA nurses has been about 78 percent of the change in the ECI; thus, CBO expects that the bill would grant VA nurses higher pay raises than under current law. To calculate the costs of this section, CBO assumes that pay raises under current law over the next five years also would be 78 percent of CBO's projection of the change in the ECI, which averages 4.1 percent over the 2001-2005 period. CBO does not expect that the new requirements regarding surveys would have any effect on salaries for nurses.

CBO estimates that implementing this provision would cost about $10 million in 2001 and about $200 million over the 2001-2005 period. The salary increases would be paid out of discretionary appropriations for the Veterans Health Administration.

Pay for dentists and pharmacists. Section 102 would change several components of pay for dentists employed by VA. These changes include bonuses for post-graduate training, increasing the amounts paid for full-time status, length of tenure, speciality pay, geographic pay, and responsibility pay. These amounts are set by statute and are received in addition to the base salary. According to VA, about 750 dentists are employed on a full-time basis. CBO used this and other data from VA to estimate the change in these payments. CBO estimates that these salary increases would cost $12 million in 2001 and $64 million over the 2001-2005 period.

Section 103 would remove the cap on pay for pharmacists employed by VA that prohibits their pay from exceeding the regular GS schedule rates. According to VA, about 180 pharmacists have reached this statutory cap. CBO estimates that this proposal would cost less than $500,000 in 2001 and $1 million in 2004 and in 2005.

Voluntary separation incentive payments. CBO estimates that payments to the CSRDF and the cost of buyout payments would increase spending subject to appropriation by $148 million over the 2001-2005 period. About 95 percent of those costs would affect the VA medical care programs; the remainder would affect VA's general operating expenses.

Pilot program for hospital benefits. Because the pilot program described in section 401 would allow VA to shift some costs to public and private insurers, VA would realize some savings. Those savings would not be dollar-for-dollar savings because VA would still be responsible for the cost of copayments and deductibles. Furthermore, VA would be responsible for the copayments and deductibles for enrollees who normally would have received their care outside of VA facilities. VA would lose about $1 million in collections from private insurance companies that would charge the local hospital instead of VA. The loss of those collections, though, would be offset by reduced spending in health care.

Taking into account these added costs, CBO estimates that VA could save $4 million in 2001 and $38 million over the 2001-2005 period. Those potential savings are greater than the Medicare costs because this section would also allow VA to shift some of its costs to the private sector. VA might not realize all of those savings because demand for medical care at VA facilities is great enough that VA might use the projected savings to provide additional services.

Construction of Medical Facilities. Section 201 would authorize the appropriation of $115.9 million to complete three projects that are specified in the bill and to continue certain projects authorized under current law. CBO estimates that those funds would be spent over the next five years, with most of the outlays occurring from 2002 through 2004.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in direct spending are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

TABLE 4. ESTIMATED IMPACT OF H.R. 5109 ON DIRECT SPENDING AND RECEIPTS

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	0	12	26	33	19	6	-6	-6	-6	-6	-6
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5109 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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